

## Message Text

CONFIDENTIAL

PAGE 01 OSLO 05362 110835Z

17

ACTION EUR-12

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TO SECSTATE WASHDC 9061

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

USEC BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY OTTAWA

USMISSION USNATO

AMEMBASSY PARIS

USOECD PARIS

AMEMBASSY STOCKHOLM

C O N F I D E N T I A L OSLO 5362

E.O. 11652: GDS

TAGS: ENRG NO

SUBJ: STIFF NEW NORWEGIAN EXCESS PROFITS TAX ON

OIL COMPANIES

REF: OSLO A-217

SUMMARY

1. THE MINISTRY OF FINANCE HAS TOLD OIL COMPANIES IT PROPOSES  
TO INTRODUCE A STIFF NEW EXCESS PROFITS TAX ON OIL AND GAS

CONFIDENTIAL

CONFIDENTIAL

PAGE 02 OSLO 05362 110835Z

INCOME. THE PROPOSAL IS INTENDED TO MOP UP WINDFALL PROFITS,

ESPECIALLY FROM THE PHILLIPS PETROLEUM GROUP'S EKOFISK FIELD, AS A RESULT OF THE QUADRUPLING OF OIL PRICES LAST YEAR. BECAUSE OF ESCALATING COSTS, PROFITS FROM NEW INVESTMENTS WILL BE HARDEST HIT. UNLESS MODIFIED, U.S. COMPANIES CLAIM THEY WILL RE-EXAMINE THEIR ACTIVITIES ON THE NORWEGIAN SHELF AND SHARPLY CURTAIL THEM.  
END SUMMARY

2. UNDER THE PROPOSAL THE GOVERNMENT WILL SET "BASE PRICES" FOR OIL AND GAS ONCE A YEAR. THESE BASE PRICES WILL INCLUDE COSTS PLUS "AN ADEQUATE PROFIT MARGIN." COSTS ARE DEFINED TO INCLUDE ALL ASPECTS OF DEVELOPMENT OF A FIELD, INCLUDING DEPRECIATION, AMORTIZATION, PIPELINES, EXPLORATION, ETC. THE ADEQUATE PROFIT MARGIN, I.E., THE DIFFERENCE BETWEEN COSTS AND THE BASE PRICES, WILL CONTINUE TO BE TAXED AT THE REGULAR CORPORATION RATE OF 50.8 PERCENT. ABOVE THE BASE PRICES THE GOVERNMENT WILL ESTABLISH NORM OR REALIZATION PRICES. THESE PRICES WILL BE CALCULATED QUARTERLY, AND WILL BE BASED ON THE MARKET PRICE FOR OIL AND GAS. A SPECIAL EXCESS PROFITS TAX OF 40 PERCENT PLUS THE REGULAR CORPORATION TAX AT 50.8 PERCENT WILL BE CHARGED ON THE DIFFERENCE BETWEEN THE BASE PRICE AND THE NORM PRICE.

3. ACCORDING TO THE NORWEGIAN PRESS, OIL COMPANIES COULD RETAIN AS LITTLE AS 2.1 PERCENT OF THE PRODUCTION VALUE OF OIL AFTER PAYING THESE TAXES, 16 PERCENT ROYALTY, AND 75 PERCENT STATOIL PARTICIPATION AS PROVIDED IN THE TERMS FOR SOME OF THE BLOCKS RECENTLY AWARDED BY THE GOVERNMENT. THE OIL COMPANIES POINT OUT THAT TAXES COULD EVEN EXCEED PROFITS, DEPENDING ON THE LEVELS AT WHICH THE GOVERNMENT SETS THE BASE AND NORM PRICES. THE GOVERNMENT HAS INDICATED THAT IT WILL USE THE SAME OIL AND GAS BASE PRICES FOR ALL FIELDS AND THAT THESE BASE PRICES WILL BE CALCULATED USING EKOFISK COSTS. SINCE THE EKOFISK FIELD IS LARGELY DEVELOPED AND MOST OF THE EQUIPMENT ALREADY IN PLACE, ITS COSTS ARE FAR LOWER THAN THE COSTS OF OTHER FIELDS BEING DEVELOPED. OIL COMPANIES SAY THAT HIGHER COSTS TODAY WILL MAKE EVEN THE STATFJORD FIELD, WHICH IS SUPPOSED TO BE THE BEST IN THE NORTH SEA, MARGINAL UNDER THE NEW TAX PROPOSAL. FURTHERMORE, ONLY THE COST OF A PARTICULAR FIELD OR RELATED COMPLEX OF FIELDS CAN BE DEDUCTED FOR PURPOSES OF CALCULATING THE EXCESS PROFITS TAX. THUS, EXPLORATION COSTS ELSEWHERE IN THE NORWEGIAN SECTOR OF THE NORTH SEA CAN NOT BE DEDUCTED.

CONFIDENTIAL

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PAGE 03 OSLO 05362 110835Z

4. THE EMBASSY HAS CONSULTED MAJOR AMERICAN OIL COMPANIES WHICH ARE SERVING AS OPERATORS IN THE NORWEGIAN SECTOR OF THE NORTH SEA--CONOCO, PHILLIPS, ESSO, MOBIL, AND AMOCO. ALL CONSIDER THAT (A) THE TAX PROPOSAL IS FAR MORE ONEROUS THAN EVEN THE BRITISH PROPOSALS; (B) THE PROPOSAL RULES OUT THE DEVELOPMENT OF SMALLER OR MARGINAL FIELDS; (C) THE BASE PRICE BASED ON EKOFISK IS FAR TOO LOW; (D) THE TAX WILL MAKE BANK FINANCING EXTREMELY DIFFICULT TO OBTAIN.

5. FINANCE MINISTRY OFFICIALS STRESS THAT THE PROPOSAL IS TENTATIVE AND STILL SUSCEPTIBLE TO CHANGE. MINISTRY OFFICIALS AND OIL COMPANIES ARE HOLDING INDIVIDUAL DISCUSSIONS ON IT. AS A RESULT OF THESE MEETINGS THE PROPOSAL MAY BE MODIFIED, POSSIBLY BEFORE A GENERAL MEETING OF THE OIL COMPANIES AND THE MINISTRY SCHEDULED FOR DECEMBER 13TH. THEREAFTER, THE MINISTRY PLANS TO SUBMIT A FINAL PROPOSAL TO THE CABINET IN MID-JANUARY, SHORTLY AFTER THE CHRISTMAS HOLIDAYS, AND TO PARLIAMENT BY THE END OF JANUARY. THE NEW TAXES WILL APPLY TO ALL INCOMES IN 1975, PROVIDED THE PROPOSAL IS APPROVED BEFORE THE FIRST PAYMENT IS DUE IN APRIL 1975.

6. COMPLICATING THIS TIMETABLE IS A JANUARY 6, 1975 DEADLINE FOR COMPANIES TO INDICATE ACCEPTANCE OF THE BLOCK AWARDS MADE IN NOVEMBER 1974 (SEE OSLO A-217). THE COMPANIES SAY THAT THE TERMS OF THESE AWARDS ARE SO TOUGH THAT THEY MAY NOT ACCEPT THE BLOCKS IF THE EXCESS PROFITS TAX IS ALSO INTRODUCED. THE FINANCE MINISTRY IS NOT SURE WHETHER TO CALL THE COMPANIES' BLUFF, AND DIRECTOR GENERAL OIEN TOLD THE E/C COUNSELOR THAT THE MINISTRY MAY EITHER ASK THE CABINET TO CONSIDER THE TAX BEFORE JANUARY 6TH OR PUT OFF THE JANUARY 6TH DEADLINE. THE FORMER COURSE IS MORE LIKELY.

7. A FURTHER COMPLICATION IS A POSSIBILITY THAT THE PRESENT LABOR GOVERNMENT MAY FALL THIS WEEK IF IT DOES NOT OBTAIN ADEQUATE SUPPORT ON ANOTHER ISSUE. UNDER THE NORWEGIAN CONSTITUTION NO NEW ELECTIONS ARE POSSIBLE BEFORE 1977, AND MAY NON-SOCIALIST GOVERNMENT FORMED AS A CONSEQUENCE OF THE FALL OF THE PRESENT SOCIALIST GOVERNMENT WILL NOT HAVE A MAJORITY AND WILL PROBABLY BE TEMPORARY. RECOGNIZING THIS IT WOULD PROBABLY BE RELUCTANT TO TAKE UP A DIFFICULT ISSUE SUCH AS THE EXCESS PROFITS TAX, PARTICULARLY SINCE THE SOCIALIST PARTIES WOULD PROBABLY OPPOSE ANY CHANGE IN THE LABOR PROPOSAL. THE ISSUE COULD THEN HANG FIRE UNTIL A NEW LABOR GOVERNMENT IS FORMED.

CONFIDENTIAL

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PAGE 04 OSLO 05362 110835Z

8. THE TAX PROPOSALS ARE THE PRODUCT OF CIVIL SERVANTS IN THE FINANCE MINISTRY. FINANCE MINISTER KLEPPE AND THE CABINET HAVE BEEN KEPT INFORMED BUT HAVE NOT ENTERED THE PICTURE DIRECTLY. OIL COMPANY REPRESENTATIVES HOPE THIS TACTIC WILL ALLOW KLEPPE AND THE GOVERNMENT TO MAKE CONCESSIONS WITHOUT APPEARING TO BACK DOWN.

8. DIRECTOR GENERAL DAEHLIN, THE SENIOR OIL OFFICIAL IN THE MINISTRY OF INDUSTRY, HAS TOLD THE E/C COUNSELOR THAT HE AGREES THE TAX PROPOSALS ARE TOO TOUGH. WHILE THE OIL COMPANIES HAVE GOOD RELATIONS WITH DAEHLIN AND HIS MINISTRY AND RECOGNIZE THEIR EXPERTISE, THEY ARE NOT EQUALLY CONFIDENT OF THEIR RELATIONS WITH THE FINANCE MINISTRY AND OF ITS COMPETENCE IN OIL MATTERS.

9. THE OIL COMPANIES CLAIM THAT, UNLESS MODIFIED, THE PROPOSALS WILL PUT AN END TO ANY NEW EXPLORATION THEY MIGHT CONTEMPLATE IN NORWEGIAN SECTOR OF THE NORTH SEA AND THAT THEY WILL HAVE TO RE-EVALUATE EXISTING PROGRAMS TO SEE WHICH SHOULD BE TERMINATED. COMPANIES HAVE NOT REPEAT NOT REQUESTED ANY EMBASSY INTERVENTION. WE ARE SEIZING APPROPRIATE OCCASIONS, HOWEVER, TO EXPRESS OUR CONCERN AND TO POINT OUT TO NORWEGIAN OFFICIALS THAT TAX POLICY, SHOULD IT FORCE COMPANIES OUT OF NORTH SEA PRODUCTION, WOULD BE INCONSISTENT WITH GOALS OF INTERNATIONAL ENERGY PROGRAM.

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## Message Attributes

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